

CITY OF KNOXVILLE
KNOXVILLE, IOWA

MUNICIPAL WATERWORKS FUND

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

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CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND

WATERWORKS OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	(Before January 2005)	
Merle Vickroy	Trustee - Chairman	April, 2009
Richard Randol	Trustee	April, 2007
Dwight Sommar	Trustee	April, 2005
	(After January 2005)	
Merle Vickroy	Trustee - Chairman	April, 2009
Richard Randol	Trustee	April, 2007
Dwight Sommar	Trustee	April, 2011
Steve Inskeep	General Manager	Indefinite
Michael Lane	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
City of Knoxville Municipal Waterworks Fund
Knoxville, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville Municipal Waterworks Fund, as of and for the year ended June 30, 2005, which collectively comprise the Waterwork's basic financial statements listed in the table of contents. These financial statements are the responsibility of Waterwork's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above presented fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville Municipal Waterworks Fund as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2005 on our consideration of the Waterworks internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be used in conjunction with this report in considering the results of our audit.

The Waterworks has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

The budgetary comparison information on pages 17 through 18 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Knoxville Municipal Waterworks Fund basic financial statements. The supplemental information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Knoxville, Iowa
November 16, 2005

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
Year Ended June 30, 2005

	<u>Disbursements</u>	<u>Program Receipts Charges for Services</u>	<u>Net (Disbursements) Receipts</u>
Functions/Programs:			
Business-Type Activities:			
Water	\$ <u>1,533,997</u>	\$ <u>1,553,055</u>	\$ <u>19,058</u>
General receipts:			
Unrestricted investment earnings			15,251
Rents collected			15,044
Miscellaneous			<u>27,076</u>
Total general receipts			<u>57,371</u>
Change in cash			76,429
Cash balance beginning of year			<u>838,799</u>
Cash balance end of year			\$ <u><u>915,228</u></u>
See notes to financial statements.			

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Business-Type Activities Enterprise Funds		
	Water Operating Fund	Sinking Fund	Reserve Fund
			Total
Operating receipts:			
Use of money and property:			
Rent	\$ 15,044	\$ -	\$ -
			15,044
Charges for services:			
Sale of water	1,448,660	-	-
Sewer collection fee	39,000	-	-
Penalty fees	5,937	-	-
Taps	200	-	-
Customer service	650	-	-
Sales tax collected	58,608	-	-
	1,553,055	-	-
Miscellaneous:			
Utility credit	9,071	-	-
Refunds	787	-	-
Reimbursements	97	-	-
NSF check charges	6,936	-	-
Merchandise sales	3,766	-	-
Disconnect notices and fees	4,983	-	-
Overpayments	152	-	-
	25,792	-	-
Total operating receipts	1,593,891	-	-
			1,593,891

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Business-Type Activities Enterprise Funds			
	Water Operating Fund	Sinking Fund	Reserve Fund	Total
Operating disbursements:				
Business Type/Enterprise:				
Administration:				
Salaries	\$ 57,697	\$ -	\$ -	\$ 57,697
Payroll taxes and IPERS	7,805	-	-	7,805
Employee insurance	62,561	-	-	62,561
Training and meetings	1,580	-	-	1,580
Analysis fees	1,702	-	-	1,702
Insurance	57,381	-	-	57,381
Audit fees	3,575	-	-	3,575
Publications	1,012	-	-	1,012
Supplies and miscellaneous	3,461	-	-	3,461
Maintenance contract	16,627	-	-	16,627
Memberships and fees	6,403	-	-	6,403
Engineering and consulting	18,297	-	-	18,297
Board annual fees	750	-	-	750
	<u>238,851</u>	<u>-</u>	<u>-</u>	<u>238,851</u>
Accounting and Collections:				
Salaries	120,827	-	-	120,827
Payroll taxes and IPERS	15,889	-	-	15,889
Office supplies	8,022	-	-	8,022
Utilities and telephone	1,847	-	-	1,847
Postage	12,164	-	-	12,164
Collection fees	1,255	-	-	1,255
Janitorial service	2,625	-	-	2,625
Sales tax remitted	58,180	-	-	58,180
Miscellaneous	6,149	-	-	6,149
	<u>226,958</u>	<u>-</u>	<u>-</u>	<u>226,958</u>
Plant and operation distribution:				
Salaries	243,170	-	-	243,170
Payroll taxes and IPERS	32,057	-	-	32,057
Electricity and gas	90,508	-	-	90,508
Chemicals	42,685	-	-	42,685
Gasoline and fuel	9,947	-	-	9,947
Maintenance and supplies	62,998	-	-	62,998
Sand, rock, and gravel	65,865	-	-	65,865
Distribution maintenance	119,818	-	-	119,818
	<u>667,048</u>	<u>-</u>	<u>-</u>	<u>667,048</u>

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Business-Type Activities Enterprise Funds		
	Water Operating Fund	Sinking Fund	Reserve Fund
			Total
Operating disbursements (continued):			
Business Type/Enterprise (continued):			
Other:			
Capital project maintenance	\$ 218,270	\$ -	\$ -
Capital outlay	2,200	-	-
	<u>220,470</u>	<u>-</u>	<u>-</u>
			<u>220,470</u>
Total operating disbursements	<u>1,353,327</u>	<u>-</u>	<u>-</u>
			<u>1,353,327</u>
Excess of operating receipts over operating disbursements	<u>240,564</u>	<u>-</u>	<u>-</u>
			<u>240,564</u>
Non-operating receipts (disbursements):			
Interest on investments	15,251	-	-
Miscellaneous:			
Insurance proceeds	1,284	-	-
Debt service:			
Bonds redeemed	-	(160,000)	-
Interest paid	-	(20,670)	-
	<u>-</u>	<u>(20,670)</u>	<u>-</u>
Total non-operating receipts (disbursements)	<u>16,535</u>	<u>(180,670)</u>	<u>-</u>
			<u>(164,135)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>257,099</u>	<u>(180,670)</u>	<u>-</u>
			<u>76,429</u>
Operating transfers in (out):			
Enterprise:			
Revenue bond sinking	(181,170)	-	-
Water operating	-	181,170	-
	<u>(181,170)</u>	<u>181,170</u>	<u>-</u>
			<u>-</u>
Net change in cash balances	75,929	500	-
			<u>76,429</u>
Balance beginning of year	<u>740,243</u>	<u>15,056</u>	<u>83,500</u>
			<u>838,799</u>
Balance end of year	<u>\$ 816,172</u>	<u>\$ 15,556</u>	<u>\$ 83,500</u>
			<u>\$ 915,228</u>

See noted to financial statements.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGE IN CASH BALANCES
AGENCY FUNDS
Year Ended June 30, 2005

	<u>Customer Deposits</u>	<u>Sanitary Sewer</u>	<u>Total</u>
Receipts:			
Charges for services:			
Sanitary sewer receipts	\$ -	\$ 1,579,814	\$ 1,579,814
Miscellaneous:			
Customer deposits	12,955	-	12,955
Reimbursements	<u>12,535</u>	<u>-</u>	<u>12,535</u>
	<u>25,490</u>	<u>-</u>	<u>25,490</u>
 Total receipts	 <u>25,490</u>	 <u>1,579,814</u>	 <u>1,605,304</u>
Disbursements:			
Business Type/Enterprise:			
Remittances to City	-	1,579,814	1,579,814
Customer deposits reimbursed	<u>38,376</u>	<u>-</u>	<u>38,376</u>
Total disbursements	<u>38,376</u>	<u>1,579,814</u>	<u>1,618,190</u>
 Excess (deficiency) of receipts over (under) disbursements	 (12,886)	 -	 (12,886)
 Balance beginning of year	 <u>57,365</u>	 <u>-</u>	 <u>57,365</u>
 Balance end of year	 <u>\$ 44,479</u>	 <u>\$ -</u>	 <u>\$ 44,479</u>

See notes to financial statements.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies

The City of Knoxville Municipal Waterworks Fund is an independent department and a component unit of the City of Knoxville. The Waterworks operates under an appointed Board of Trustees. The Waterworks Department provides water service to the residents of Knoxville, Iowa, located in Marion County.

A. Reporting Entity

For financial reporting purposes, the Municipal Waterworks Funds of the City of Knoxville, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The Waterworks has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Waterworks, are such that exclusion would cause the Waterworks financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Waterworks to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Waterworks. These statements do not include any other City of Knoxville funds or transactions.

B. Basis of Presentation

Government-wide Financial Statements – The statement of activities and net assets cash basis reports information on all of the nonfiduciary activities of the primary government, the Waterworks Fund, and any component units. For the most part, the effect of interfund activity has been removed from this financial statements. The statement demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identified with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program receipts are reported instead on general receipts.

Fund Financial Statements – Separate financial statements are provided for proprietary fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual proprietary funds are reported as separate columns in the funds financial statements.

The Waterworks reports the following fund type:

Proprietary Funds:

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies

B. Basis of Presentation (continued)

Additionally, the Waterworks reports the following fund type:

Fiduciary Funds:

Agency Funds are utilized to account for monies and properties received and held by the Waterworks in a trustee capacity as an agent for individuals, private organizations, certain jointly governed organizations, other governmental unites and/or other funds.

C. Basis of Accounting

The Municipal Waterworks Fund maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Waterworks are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005 disbursements exceeded the amount budgeted in the business type activities function.

Note 2. Cash and Pooled Investments

The Waterwork's deposits at June 30, 2005 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Waterwork's Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investments companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 2. Cash and Pooled Investments (continued)

The Waterwork's investments at June 30, 2005 are as follows:

Type	Amortized Cost
Iowa Public Agency Investment Trust	\$ 898,321

The Waterworks investments in the Iowa Public Agency Investment Trust are not subject to risk categorization and are valued at amortized cost pursuant of Rule 2a-7 under the Investment Company Act of 1940.

Note 3. Indebtedness

Annual debt service requirements to maturity for the revenue refunding capital loan notes is as follows:

Year Ending June 30,	Revenue Refunding Capital Loan Notes		
	Interest	Principal	Total
2006	\$ 16,670	\$ 170,000	\$ 186,670
2007	11,740	170,000	181,740
2008	<u>6,300</u>	<u>175,000</u>	<u>181,300</u>
	<u>\$ 34,710</u>	<u>\$ 515,000</u>	<u>\$ 549,710</u>

The resolution providing for the issuance of the revenue refunding capital loan notes include the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly cash transfers shall be made to a sinking fund account for the purpose of making the capital loan note principal and interest payments when due.
- c) A reserve fund account shall be created equal to the lesser of three alternative computations. The lesser of the three computations at June 30, 2005 is \$83,500. The amount deposited in the reserve fund account shall be used solely for the purpose of paying principal and interest on the capital loan notes should funds available in the sinking fund be inadequate.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Waterworks is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Waterwork's contribution to IPERS for the year ended June 30, 2005 was \$23,464 equal to the required contributions for the year.

Note 5. Compensated Absences

Waterwork's employees accumulate vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the Waterworks until used or paid.

Waterwork's employees accumulate sick leave hours for subsequent use. Half the value of sick leave accrued at retirement will be applied to payment of health insurance premiums after retirement.

The Waterwork's maximum liability for unrecognized accrued employee benefits has been computed based on rates of pay as of June 30, 2005 and is as follows:

<u>Type of Benefits</u>	<u>Amount</u>
Vacation	\$ 32,974
Sick Leave	<u>82,705</u>
Total	<u>\$ 115,679</u>

Note 6. Interfund Transfers

The detail of interfund transfers from the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise: Sinking	Enterprise: Water Operating	<u>\$ 181,170</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 7. Risk Management

The Waterworks is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 500 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool, fund its share of the annual Budgetary Contribution which is the amount necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency which may occur in the Pool's Cumulative Reserve Fund.

The Waterwork's property and casualty contributions to the risk pool are recorded as expenditures at the time of payment to the risk pool. The Waterwork's annual contribution to the Pool for the year ended June 30, 2005 was \$39,948.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. All property risks are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Waterworks does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the Waterwork's financial statements. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claims was incurred or reported prior to the member's withdrawal.

The Waterworks also carries insurance purchased from Iowa Municipalities Workers Compensation Association (IMWCA) for coverage associated with workers compensation in the amount of \$315,000. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from this risk have not exceeded insurance coverage in any of the past three fiscal years.

The Waterworks purchased from another insurer, coverage for employee blanket bond in the amount of \$25,000

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8. Sanitary Sewer Receipts

The Waterworks assesses and collects sanitary sewer charges for the City of Knoxville, Iowa. The receipts from collections from customers and remittances to the City of Knoxville are accounted for in the Agency – Sanitary Sewer Receipts Fund.

Note 9. Construction Commitment and Contingencies

During the year ended June 30, 2005 the Waterworks Board approved various contracts totaling \$103,141 for major repairs and pump replacements. The amount of the contracts will be paid as work on the projects progress. At June 30, 2005 \$34,019 had been paid on the contracts. The balance of the contract commitments of \$69,122 will be paid as work on the projects is completed.

The Waterworks has a plan to self-fund the increase in their out of pocket and deductible limits of their health insurance policy for all eligible employees. The maximum annual calendar year exposure to the Waterworks would be \$3,150 of which \$463 have been paid in claims as of June 30, 2005. The maximum remaining contingent liability as of June 30, 2005 is \$2,687.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL – PROPRIETARY FUNDS
Year Ended June 30, 2005

	<u>Actual</u>	<u>Reclassification and Adjustments</u>	<u>Net</u>	<u>Original Budgeted Amounts</u>	<u>Budget to Net Variance</u>
Receipts:					
Water:					
Use of money and property	\$ 30,295	\$ -	\$ 30,295	\$ 14,500	\$ 15,795
Charges for services	1,553,055	(64,545)	1,488,510	1,541,500	(52,990)
Miscellaneous	27,076	90,035	117,111	93,000	24,111
Total receipts	<u>1,610,426</u>	<u>25,490</u>	<u>1,635,916</u>	<u>1,649,000</u>	<u>(13,084)</u>
Disbursements:					
Business type activities:					
Water	<u>1,533,997</u>	<u>38,376</u>	<u>1,572,373</u>	<u>1,565,350</u>	<u>(7,023)</u>
Excess (deficiency) of receipts over (under) disbursements	76,429	(12,886)	63,543	83,650	(20,107)
Balance beginning of year	<u>838,799</u>	<u>57,365</u>	<u>896,164</u>	<u>866,982</u>	<u>29,182</u>
Balance end of year	<u>\$ 915,228</u>	<u>\$ 44,479</u>	<u>\$ 959,707</u>	<u>\$ 950,632</u>	<u>\$ 9,075</u>

See accompanying independent auditor's report.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2005

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the Proprietary Funds. Although the budgeted document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the business type activities function.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>
Revenue Refunding Capital Loan Notes: Water	May 1, 2003	2.15 - 3.60%	\$ 835,000	\$ <u><u>675,000</u></u>

See accompanying independent auditor's report.

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>	<u>Bonds/Notes Due and Unpaid</u>
\$ <u>-</u>	\$ <u>160,000</u>	\$ <u>515,000</u>	\$ <u>20,670</u>	\$ <u>-</u>	\$ <u>-</u>

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
DEBT MATURITIES
June 30, 2005

Year Ending June 30,	Capital Loan Notes			
	Water			
	Issued May 1, 2003			
	Interest Rate	Interest	Principal	Total
2006	2.90 %	\$ 16,670	\$ 170,000	\$ 186,670
2007	3.20	11,740	170,000	181,740
2008	3.60	<u>6,300</u>	<u>175,000</u>	<u>181,300</u>
		\$ <u>34,710</u>	\$ <u>515,000</u>	\$ <u>549,710</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees
City of Knoxville Municipal Waterworks Fund
Knoxville, Iowa

We have audited the financial statements of the City of Knoxville Municipal Waterworks Fund as of and for the year ended June 30, 2005, and have issued our report thereon dated November 16, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit we considered City of Knoxville Waterworks internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Knoxville Waterwork's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05 and I-B-05 are material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether City of Knoxville Municipal Waterworks Funds financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterwork's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There were no prior year statutory comments.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Knoxville Waterworks and other parties to whom the City of Knoxville Waterworks may report. This report is not intended to be and should not be used by anyone other than the specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Knoxville Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Knoxville, Iowa
November 16, 2005

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

- I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. With only two individuals in the office, it is necessary on numerous occasions for the same individual to prepare water billings, receive cash and prepare the deposits, and post collections to customer accounts.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we believe the Board should be aware of the situation and, as conditions change, review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We are aware of the situation, however with the current staffing we do not believe there is a practical way of improving the segregation of duties.

Conclusion - Response accepted.

- I-B-05 Reconciliation of Uncollected Aged Balances to Water Billings and Collections – The monthly aged reports on uncollected billings should be reconciled to the water billings, collections and subsequent month uncollected balances report.

Recommendation – Procedures should be established to reconcile the water billings, collections and monthly aged reports of uncollected billings for each billing period.

Response – We are continuing to review the feasibility of establishing the reconciliation procedures.

Conclusion – Response accepted.

- I-C-05 Payment of Claims Prior to Board Approval – It was noted that of the disbursements tested eight of the claims were paid prior to Board approval in the monthly Board minutes.

Recommendation – The Waterworks should ensure that all disbursements are properly approved prior to payment. For payments made in advance of Board meetings. The Waterworks should maintain documentation of the Board Chairman's approval of claims for payment, such as the Chairman's initials and date of approval.

Response – The payments noted above were on contracts or bond payments which had been approved when the contractor or bond issue had been approved. We will adopt a Board resolution as to which claims may be paid before full Board approval which will provide for documented revenues by Board Chairman.

Conclusion – Response accepted.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:

- 1) Official Depositories - The Waterworks adopted a resolution naming official depositories and the maximum deposit amounts to be deposited in the depositories. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- 2) Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the amount budgeted in the business type activates functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- 3) Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 4) Travel Expense - No disbursements of Waterwork's money for travel expenses of spouses of Waterwork's officials or employees were noted.
- 5) Business Transactions - No business transactions between Waterworks and Waterwork's officials or employees were noted.
- 6) Bond Coverage - Surety bond coverage of Waterwork's officials and employees is in accordance with statutory provisions. The Board should continue to review the amount of coverage annually to insure that the coverage remains adequate for current operations.
- 7) Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 8) Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provision of Chapter 12B and 12C of the Code of Iowa and the Waterwork's investment policy.
- 9) Revenue Refunding Capital Loan Notes – The Waterwork's has established and funded the sinking reserve accounts required by the water revenue refunding capital loan note resolution.

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